



LODI CITY COUNCIL
Carnegie Forum
305 West Pine Street, Lodi

"SHIRTSLEEVE" SESSION

Date: May 16, 2006

Time: 7:00 a.m.

For information regarding this Agenda please contact:

Susan J. Blackston
City Clerk
Telephone: (209) 333-6702

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Informal Informational Meeting

A. Roll call by City Clerk

B. Topic(s)

B-1 Receive presentation on an option to close the gap between revenue and expenses resulting from new annexations and residential development and report prepared by the consulting firm of Economic & Planning Systems (EPS) (CD)

C. Comments by public on non-agenda items

D. Adjournment

Pursuant to Section 54954.2(a) of the Government Code of the State of California, this agenda was posted at least 72 hours in advance of the scheduled meeting at a public place freely accessible to the public 24 hours a day.

Susan J. Blackston
City Clerk



CITY OF LODI COUNCIL COMMUNICATION

AGENDA TITLE: Presentation: 1. An option to close the gap between revenue and expenses resulting from new annexations and residential development
2. Fiscal Study prepared by the consulting firm Economic & Planning Systems (EPS)

MEETING DATE: May 16, 2006

PREPARED BY: Randy Hatch, Community Development Director

RECOMMENDED ACTION: Receive attached report and associated presentation.

BACKGROUND INFORMATION: The vast majority of cities in California are experiencing a gap in the tax revenue received versus the costs for service expected from local government. This discussion will focus on the gap between tax revenue and city service costs as it relates to new residential development. For several decades, cities have been examining the fiscal effect of new development. Several academic studies have been done to document that new residential development does not fully pay for required city services and that the existing city businesses and residents are supporting, or subsidizing, new residential growth. As documented by several detailed studies that staff has reviewed for various cities, retail development generally provides net revenue over costs, industrial and office uses tend to be in fiscal balance with city revenue matching cost of city services provided, while residential development is in a deficit position with the cost of services provided exceeding tax revenue generated. There is some variation in the size of the residential “gap” with high value housing creating a smaller gap than more moderately valued housing given an equal level of services. A root cause of this fiscal gap is the State’s property tax system as impacted by the limitations of Proposition 13 and the ERAF shift. This situation has been made worse for cities by the more recent establishment by counties of mandatory tax sharing agreements required of cities to annex property. While these tax sharing agreements help counties address their fiscal gap by allocating more of the local property tax portion of the total property tax bill to counties, this comes directly from city revenues from new development.

Cities have responded to this fiscal gap by a variety of methods. One method has been to engage in “fiscal zoning” where cities aggressively seek new retail development and discourage residential development, especially residential development that is not very high priced. This practice can result in an overbuilding of retail uses, sprawl, and a lack of renewing existing retail areas. Fiscal zoning also contributes to the State housing affordable crisis.

Another response has been for cities to impose greater costs on new residential development in an effort to close the revenue gap. Cities use impact fees and assessment districts to collect revenue from new residential to pay for the capital costs of new residential (e.g. sewer, water, drainage, streets, parks, fire stations). The State has intervened in this practice insuring that such capital fees only pay for the costs of new development and not to upgrade or replace facilities servicing existing city residents. Further,

APPROVED: _____
Blair King, City Manager

impact fees for new schools have been effectively taken over by the State with a strict impact fee schedule. Cities have responded with more thorough and detailed impact fees to cover the pro rata share of new development for more general facilities such as city halls, community-wide centers and parks, police equipment, public art, etc.

While these impact fees address cities' capital needs, operational costs are not addressed by impact fees. A small list of techniques are available to cities to pay for operations. Perhaps the most used is lighting and landscape districts to fund on-going street lighting and landscaping in neighborhood parks and along trails and street medians. For the last eight years or so, cities have also used the Mello-Roos Community Facilities Act of 1982 (best known for funding capital facilities via issuance of bonds) to pay for yearly operational costs from new development. A Community Facilities District (CFD) operations tax is an annual tax assed to pay for annual operating costs for specific purposes. The range of services that can be paid with a CFD is broad.

A city using a CFD to fund operational costs must go through several steps. First, a city documents its individual gap between taxes received from new development and the on-going costs of providing services to that residential development. A city then establishes the fee that is sought to fill the gap; the fee may be the full documented gap or a lesser amount as determined by Council. Third, the originating Resolutions are prepared and adopted to authorize a community facilities district (CFD). Fourth, a district is formed with the initiating area, and fifth, as new residential developments are approved, they are annexed into the district. Formation and annexation of the district requires voter approval. Typically, the property at time of tentative map approval is unoccupied (or has less than 12 registered voters) and therefore property owners vote. Again, typically the property owners are proponents of the residential development and have every reason to vote in the affirmative as this is a condition of the tentative map. Finally, the establishment Resolutions for the district allow for automatic costs of living increases in the fee.

COST / REVENUE STUDY: The submitted draft Fiscal Study for Annexation Territories is the first step in the process to address the fiscal gap of residential development. One will note, that the study documents that as a result of the newly adopted tax sharing agreement with San Joaquin County the average property tax distribution for Lodi falls from 16.67% to 7.54% for newly annexed development. This study determines that new residential development via annexation results in an annual shortfall of \$381.00 per unit (\$481.00 per unit when including landscaping along major roadways in the annexation area). Council should be comfortable with this study and its methodology as any further step to close the funding gap rests upon this study. The consultant and staff are available to answer questions on this topic.

This report will be used as the foundation for future recommendations with regard to closing the gap between revenues and expenses related to new residential development.

Randy Hatch
Community Development Director



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TECHNICAL MEMORANDUM

To: Blair King, *City of Lodi*
Randy Hatch, *City of Lodi*

From: Russ Powell and Tapa Banda

Subject: Fiscal Study for Annexation Territories; EPS #15539

Date: May 11, 2006

The City of Lodi (City) has requested Economic & Planning Systems, Inc., (EPS) to evaluate the fiscal impacts of the three annexation areas as currently proposed. The three proposed annexation areas are these:

- Southwest Gateway
- Westside
- Reynolds Ranch

A fiscal study examines the costs of providing basic city services to a project and compares those costs to operating revenues that would be generated by the project. Such a study weighs a city's ongoing service costs and operating revenues and excludes any consideration of capital funding for public infrastructure. Capital funding, because it represents a one-time investment for the life of the infrastructure, usually is not considered in a fiscal impact study.

The City should use the results of this fiscal study to determine whether the Project is likely to reduce the level of citywide services because project-related contributions to revenues in the City's General Fund and Road Fund do not fully cover the costs of serving the Project. Conversely, it may be that the Project will enhance citywide services because project-related revenues will be more than what will be required to fund services provided to the Project. This memorandum briefly describes the preliminary results of the fiscal study with the understanding that a full report characterizing the study's assumptions, results, and interpretation will be forthcoming.

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This fiscal study examines the impact of the proposed annexation areas (Project) under one analysis. This fiscal study evaluates the impacts to the general fund and road funds, based on two scenarios.

- **Scenario 1**—Residential Uses Development without Commercial Development
- **Scenario 2**—Residential and Nonresidential Uses Development

PROJECT DESCRIPTION

The Project, consisting of 628 non-contiguous acres, is located in the southern area of the City and contains residential, office, commercial, and various public uses. Residential uses account for approximately 466 acres consisting of 1,692 low density single-family units, 695 medium-density residential units, and 833 high-density residential units. Commercial uses are proposed for 40 acres. Office uses are proposed for 20 acres. The remaining 102 acres will be for public uses including schools and parks.

PURPOSE AND CONTEXT FOR THE FISCAL ANALYSIS

This analysis evaluates the fiscal impact of the Project on the annual operating budget of the City. The objective of this fiscal study is to determine if, at build out of the Project, the City has adequate revenue to provide City services, such as law enforcement and fire protection, to the employees, customers, and other persons who visit the site. Part of the City's administration costs also are assumed to increase after development of the Project.

The fiscal analysis takes into account the effects of the State budget crisis from 2002 and 2003 and is based on the assumption that local government revenue will be restored by Fiscal Year (FY) 2007, the year in which construction is anticipated to begin.¹ The analysis is based on the adopted FY 2005–06 City budget, current tax regulations and statutes, and the general assumptions discussed on the following pages.

The development schedule and land uses are based on information provided by the City and combined with historical and projected demographic data from the California Department of Finance (DOF), California Employment Development Department (EDD), and Sacramento Area Council of Governments (SACOG). The results of the

¹ Because the development of the Project does not begin before FY 2007, no decrease in property tax allocations from the 2-year shift in the Educational Revenue Augmentation Fund (ERAF) to the City's General Fund or other Special Funds is assumed. In other words, when the Project is built out, it is assumed that the State-mandated shifts of the City's property tax revenues will have been restored, and the fiscal study assumes the City's current allocation of the 1-percent property tax.

Analysis will vary if development plans change from those upon which this Analysis is based.

The actual fiscal impacts of the development will vary from those presented in this study, depending on changes in the City budget or actual construction costs and sales prices in the development area. The variability of commercial construction prices directly affects the amount of property tax revenue generated by the affected service providers, as well as the levels of anticipated sales tax revenues.

Each revenue item is estimated based on current State legislation and current San Joaquin County (County) resolution or ordinance. Future changes by either State legislature or the County can affect the revenues estimated in this study.

GENERAL ASSUMPTIONS

The following list documents the key assumptions used in this analysis:

- **Expense and revenue multiplier basis for Project**—As detailed in **Table B-1** and **Table C-1**, impacts to the City's operating budget are derived through either a case study analysis or by estimating the impact of the Project relative to the current persons served in the City. One "person served" is defined as a City resident or one-fourth of an employee working in the City. The Project's addition to most expense categories and to selected revenue categories is estimated using the number of persons served, or one-fourth the total employee count, located in the Project. The one-fourth employee standard was recommended by City staff and based on staff estimations, in this case local commercial retail activity, on the City's services. A case study was used to determine the costs of maintaining parks (**Table C-3**).
- **Sales tax assumptions**—The estimated increase in sales tax revenues (**Table B-5**) was calculated through two methodologies. A Market Support Methodology (**Table B-5A**) uses estimated household income levels for each category of residential density to forecast retail sales that will be generated by the new residential development. Retail sales generated by the new local commercial development are estimated through an Adjusted Retail Space Methodology (**Table B-5B**).
- **Property tax assumptions**—Property taxes are the largest source of new revenue produced by the Project. Impact on the City's assessed property values was determined through a market analysis of comparable residential and commercial development in the City. The property tax sharing agreement between the City and the County states that the City will receive 20 percent of the property tax

revenue accruing to the County and detaching special districts before annexation. Second, the City's property tax revenue will be reduced as a result of the State-mandated ERAF shift. The ERAF shift is approximate and represents the average for the County.

RESULTS OF THE FISCAL ANALYSIS

Table 1 shows that at buildout the development proposed for the Project will result in a net fiscal deficit for the City (i.e., development-generated revenues will not be sufficient to fund General Fund– and Road Fund–related expenditures for the Project). In the Residential Only scenario, annual expenditures are projected to exceed revenues by almost \$1.2 million, or \$381 per residential unit. The Commercial and Residential scenario projects revenues will increase above the Residential Only scenario because of the significant amount of commercial uses for the Project. The Residential and Commercial scenario still projects an annual deficit of \$894,842, or \$278 per residential unit.

The City has noted that the new annexation areas will have greater levels of landscaping along major roadways. This analysis did not look at these costs. EPS assumes that these costs would be offset by a revenue source, such as a Landscaping and Lighting District. EPS estimates that these costs will be approximately \$100 annually per residential unit in 2006 dollars. If this amount is added to the shortfall per residential unit shown in **Table 1**, then the Residential Only scenario shortfall becomes \$481 per residential unit, and the Residential and Commercial scenario shortfall becomes \$378 per residential unit.

Table 2 shows that property taxes totaling \$1,064,345 under the Residential Only scenario and \$1,124,799 under the Commercial and Residential scenario represent approximately 24 percent of project-generated revenues that will accrue to the General Fund. The annual Bradley-Burns 1-percent and the Proposition 172 Public Safety sales tax revenues generated by the Project are estimated to be \$88,343 under the Residential Only scenario and \$384,061 in the Residential and Commercial scenario.

Table 2 also shows estimated Project-related General Fund expenditures by the City to be \$5.3 million for the Residential Only and \$5.5 million for the Commercial and Residential scenarios. The largest expenditure category in the City's General Fund is police protection. The Project is projected to increase Police costs by \$1.39 million and for the Residential Only and by \$1.45 million for the Commercial and Residential scenarios. The Fire Department, at approximately \$975,000 in both scenarios, is also a significant General Fund cost factor. Street Fund expenditures are estimated to result in almost \$400,000, approximately, in additional costs to the City Budget.

CONCLUSION

The General Fund and Street Fund shortfall shown in this report represents the difference between the cost of providing existing levels of services to new annexation areas and the amount of estimated revenue that will be generated in new taxes and other revenues. Any increased service levels will increase the shortfall shown in **Table 1**.

Table 1
City of Lodi New Annexation Fiscal Impact Analysis
Fiscal Impact Summary

Scenario At Buildout	City Budget Fund [1]		TOTAL	Per Dwelling Unit [3]
	General Fund	Street Fund [2]		
Residential Only				
Revenues	\$3,920,037	\$145,872	\$4,065,909	
Expenditures	\$4,905,687	\$387,939	\$5,293,626	
Surplus/(Deficit)			(\$1,227,717)	(\$381)
Commercial and Residential				
Revenues	\$4,478,846	\$159,050	\$4,637,896	
Expenditures	\$5,127,275	\$405,463	\$5,532,738	
Surplus/(Deficit)			(\$894,842)	(\$278)

"sum_all"

[1] Annual impacts.

[2] Does not include the estimated costs of maintaining landscaped corridors and street lights in the annexation areas. The City estimates that service standards for landscaping and lighting maintenance will increase above levels found in other areas of the City.

[3] EPS estimates that the greater levels of landscaping along major roadways in the annexation areas will add approximately \$100 per unit in additional funding shortfall. EPS did not include an estimate of these costs in the fiscal study under the assumption there would be an offsetting revenue source to fund maintenance costs, such as a Landscaping and Lighting District.

Table 2
City of Lodi New Annexation Fiscal Impact Analysis
Revenue and Expenditure Summary, General and Street Funds

Revenue or Expenditure / Fund	At Buildout	
	Residential Only	Commercial and Residential
REVENUES		
<u>General Fund</u>		
Property Tax	\$1,064,345	\$1,124,799
Property Tax in Lieu of Sales Tax	\$34,704	\$150,870
Property Tax in Lieu of VLF	\$1,231,315	\$1,301,252
Real Property Transfer Tax	\$28,188	\$30,734
Sales Tax (Incl. Prop. 172 - Public Safety)	\$88,343	\$384,061
Business License Tax	\$114,531	\$124,878
Franchise Fees	\$1,183,141	\$1,183,141
Licenses [1]	\$0	\$0
Fees [1]	\$0	\$0
Intergovernmental Revenue	\$65,633	\$65,633
Motor Vehicle in-Lieu	\$69,523	\$69,523
Fines and Forfeitures	\$40,313	\$43,955
Subtotal, General Fund Revenues	\$3,920,037	\$4,478,846
<u>Street Fund</u>	\$145,872	\$159,050
TOTAL ANNUAL REVENUES	\$4,065,909	\$4,637,896
EXPENDITURES		
<u>General Fund</u>		
City Attorney	\$47,076	\$49,202
City Manager	\$284,425	\$297,273
City Clerk	\$60,085	\$62,799
Finance	\$263,790	\$275,705
Community Events	\$12,798	\$13,376
Police	\$1,386,866	\$1,449,510
Fire Dept.	\$946,944	\$989,717
Public Works	\$682,844	\$713,688
Community Center	\$74,856	\$78,237
Non-Departmental	\$626,358	\$654,650
Parks & Recreation	\$519,645	\$543,117
Subtotal, General Fund Expenditures	\$4,905,687	\$5,127,275
<u>Street Fund</u>	\$387,939	\$405,463
TOTAL ANNUAL EXPENDITURES	\$5,293,626	\$5,532,738
SURPLUS / (DEFICIT)	(\$1,227,717)	(\$894,842)

"sum_detail"

[1] Adjusted for user fees and cost recovery amounts.



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APPENDICES

APPENDIX A: FISCAL IMPACT SUMMARY AND
ASSUMPTION TABLES

APPENDIX B: REVENUE-ESTIMATING TABLES

APPENDIX C: EXPENDITURE-ESTIMATING TABLES

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APPENDIX A

FISCAL IMPACT SUMMARY AND ASSUMPTION TABLES

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Table A-1
City of Lodi New Annexation Fiscal Impact Analysis
General Assumptions

Item	Assumption
General Assumptions	
Fiscal Year Development Starts	N/A
Fiscal Year of Analysis and Year Dollars Discounted to	2005-06
Cash Flow Base Year	2005
Inflation (Discount) Rate [1]	3.5%
Legislated Tax Escalation Rate	2.0%
Property Appreciation Rate [2]	4.5%
Property Turnover Rate (% per year)	
Residential - Single-Family	10.0%
Residential - Multifamily	10.0%
Nonresidential	5.0%

General Demographic Characteristics

San Joaquin County Population - Jan. 1, 2005 [3]	653,333
City of Lodi	
Population - Jan. 1, 2005 [3]	62,467
Employees - March, 2003 [4]	22,404
Persons Served [5]	68,068

"gen_assumps"

Source: California Department of Finance; U.S. Census Bureau; City of Lodi; and E

[1] The discount rate is the factor used to discount inflated dollars to present value.

[2] A real-market appreciation of 1% above the base inflation rate is assumed.

[3] Population estimates based on California Department of Finance data.

[4] From the U.S. Census County Business Patterns Data.

[5] "Persons Served" is defined as Lodi's population plus 25% of employees.

Table A-2
City of Lodi New Annexation Fiscal Impact Analysis
Land Use Summary

All Annexation Areas

Land Use	Assumptions	Land Use Buildout [1]		
		Acreage	Dwelling Units	Building Square Feet
Residential Land Uses	<i>Units/Acre</i>			
Low Density	5	-	1,692	na
Medium Density	8	-	695	na
High Density	22	-	683	na
High Density	50	-	150	na
Total Residential		465.9	3,220	
Nonresidential Land Uses	<i>FAR</i>			
Commercial	0.20	40.0	na	350,000
Office	0.23	20.0	na	200,000
Total Nonresidential		60.0	na	550,000
Public Land Uses				
School	na	34.0	na	na
Fire Station	na	1.0	na	na
Aquatic Center	na	4.7	na	na
Parks	na	56.4	na	na
Open Space	na	0.5	na	na
Detention Basins	na	5.5	na	na
Total Public	na	102.1	na	na
Total All Land Uses		628.0	3,220	550,000

"land_use"

Source: City of Lodi.

[1] Residential acreage for the Westside and Southwest Gateway projects estimated as total site acreage less public facilities and park acres.

Table A-3
City of Lodi New Annexation Fiscal Impact Analysis
Land Use Assumptions (2006\$)

Land Use	Units/ Acres	Description	Sq. Ft. per Acre [1]	Secured Value per Unit/Sq. Ft. [2]	Unsecured Value per Unit/Sq. Ft. [2]	Turnover Rate	Persons per DU [3]	Sq. Ft. per Employee [4]
Residential								
Low Density	1,692	Dwelling Unit	-	<u>Per Unit [2]</u> \$551,000	<u>Per Unit</u> \$0	10%	2.79	-
Medium Density	695	Dwelling Unit	-	\$421,000	\$0	10%	2.28	-
High Density	683	Dwelling Unit	-	\$157,000	\$0	10%	2.03	-
High Density	150	Dwelling Unit	-	\$157,000	\$0	10%	2.03	-
Nonresidential								
Commercial	40.0	Square Feet	8,750	<u>Per Sq. Ft. [3]</u> \$140	<u>Per Sq. Ft.</u> \$20	5%	-	450
Office	20.0	Square Feet	10,000	\$140	\$20	5%	-	300

"lu_assumps"

Source: California DOF; City of Lodi General Plan 1991; LoopNet; The Gregory Group; and EPS.

[1] Assumed FARs: Commercial - 0.2; Office - 0.23

[2] 4Q 2005 avg. base prices from The Gregory Group for low and medium density residential units.

[3] Weighted average prices for selected properties in Lodi from Loopnet, Inc. April 6, 2006.

[3] Assumptions from 1991 City of Lodi General Plan adjusted to reflect 2005 DOF average persons per household for low density units.

[4] EPS assumptions based on data findings for the Sacramento region.

Table A-4
City of Lodi New Annexation Fiscal Impact Analysis
Estimated Residential and Employee Population by Land Use Category

Land Use	At Buildout					
	Residential Only			Commercial and Residential		
	Residents	Employees	Total Pop.	Residents	Employees	Total Pop.
	<i>a</i>	<i>b</i>	<i>c = a + b</i>	<i>d</i>	<i>e</i>	<i>f = d + e</i>
Residential Population						
Low Density	4,719	n/a	4,719	4,719	n/a	4,719
Medium Density	1,586	n/a	1,586	1,586	n/a	1,586
High Density	1,385	n/a	1,385	1,385	n/a	1,385
High Density	304	n/a	304	304	n/a	304
Total Residential Population	7,995	-	7,995	7,995	-	7,995
Employee Population						
Nonresidential						
Commercial	n/a	-	-	n/a	778	778
Office	n/a	-	-	n/a	667	667
Subtotal Nonresidential		-	-		1,444	1,444
Total Employee Population	-	-	-	-	1,444	1,444
Total Residential and Employee Pop	7,995	-	7,995	7,995	1,444	9,439
Total Persons Served [1]	7,995	-	7,995	7,995	722	8,717

"empl_pop"

Source: EPS

[1] "Total Persons Served" is defined as 100% of residential population and 50% of employees.



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APPENDIX B

REVENUE-ESTIMATING TABLES

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Table B-1
City of Lodi New Annexation Fiscal Impact Analysis
Revenue-Estimating Procedures (2006\$)

Revenues	Estimating Procedure	Table/ Reference	FY 2005-06 Revenues	Revenue Adjustments [1]	Adj. Net FY05-06 Revenues	Population or Persons Served	Revenue Multiplier
GENERAL FUND - Annual General Fund Revenues [2]							
Property Tax	Case Study	Table B-4	\$8,063,374		\$8,063,374	N/A	N/A
Property Tax in Lieu of Sales Tax [3]	Case Study	Table B-5	N/A		N/A	N/A	N/A
Property Tax in Lieu of VLF [3]	Case Study	Table B-3 & Table B-4	N/A		N/A	N/A	N/A
Real Property Transfer Tax	Avg. Rev. per Person Served	Table B-2	\$240,000		\$240,000	73,669	\$3.26
Sales Tax	Case Study	Table B-5	\$9,038,120		\$9,038,120	N/A	N/A
Sales Tax - Prop. 172 (Public Safety)	Case Study	Table B-5	\$364,000		\$364,000	N/A	N/A
Transient Occupancy Tax (TOT)	[4]		\$348,480		\$348,480	N/A	N/A
Business License Tax	Avg. Rev. per Person Served	Table B-2	\$975,156		\$975,156	73,669	\$13.24
Franchise Fees	Avg. Rev. per Capita	Table B-2	\$9,244,720		\$9,244,720	62,467	\$147.99
Licenses	Avg. Rev. per Employee	Table B-2	\$28,710	(\$28,710)	\$0	73,669	\$0.00
Permits	[5]		\$39,800	(\$39,800)	\$0	N/A	N/A
Fees	Avg. Rev. per Person Served	Table B-2	\$3,135,139	(\$3,135,139)	\$0	73,669	\$0.00
Investment/Property	[6]		\$168,000	(\$168,000)	\$0	N/A	N/A
Intergovernmental Revenue	Avg. Rev. per Capita	Table B-2	\$512,838		\$512,838	62,467	\$8.21
Motor Vehicle in-Lieu	Case Study	Table B-2 & Table B-3	\$3,706,100		\$3,706,100	N/A	N/A
Fines and Forfeitures	Avg. Rev. per Person Served	Table B-2	\$343,237		\$343,237	73,669	\$4.66
Other Revenue	[6]		\$474,850	(\$395,800)	\$79,050	N/A	N/A
Transfers from Other Funds	[6]		\$7,141,848	(\$7,141,848)	\$0	N/A	N/A
Subtotal Annual Gen. Fund Revenues			\$43,824,372	(\$10,909,297)	\$32,915,075		\$177.36
STREET FUNDS - Annual Street Fund Revenues [2]							
State Gas Tax	Avg. Rev. per Person Served	Table B-2	\$1,242,000		\$1,242,000	73,669	\$16.86
Development Impact Fees	Avg. Rev. per Person Served	Table B-2	\$945,000	(\$945,000)	\$0	73,669	\$0.00
Investment/Property	[6]		\$10,000	(\$10,000)	\$0	N/A	N/A
Measure K	[7]		\$1,000,000	(\$1,000,000)	\$0	N/A	N/A
Reimb. - Measure K	[7]		\$4,380,000	(\$4,380,000)	\$0	N/A	N/A
State STIP Reimbursement	[7]		\$510,000	(\$510,000)	\$0	N/A	N/A
Subtotal Street Funds Revenues			\$8,087,000	(\$955,000)	\$1,242,000		\$16.86
TOTAL ANNUAL GENERAL AND STREET FUND REVENUES			\$51,911,372	(\$11,864,297)	\$34,157,075		\$194.22

rev_procedures

Source: City of Lodi FY 2005-06 Adopted Budget; California Office of the Controller; California Department of Finance; and EPS.

[1] Revenues are adjusted by user fees and cost recovery amounts shown in the City's FY 2005-06 Budget. These deductions in ongoing revenues also are deducted from ongoing costs, as shown in **Table C-1**.

[2] Annual fund revenues reflect City of Lodi budgeted revenues for FY 2005-06.

[3] Property Tax in Lieu of Sales Tax and Property Tax in Lieu of Motor Vehicle License Fees are authorized by SB 1096 as amended by AB 2115.

[4] This revenue source is not expected to be affected by the Project because the project does not increase available hotel stock.

[5] This revenue source is not included in the analysis because it is a one-time revenue generator and is not an ongoing source of revenue.

[6] This revenue source is not expected to be affected by the Project and is therefore not evaluated in this analysis.

[7] This revenue source is not included in the analysis because it is for capital projects and is not an ongoing source of revenue.

Prepared by EPS

Table B-2
City of Lodi New Annexation Fiscal Impact Analysis
Estimated Annual Project Revenues (2006\$)

Revenue	At Buildout		
	Residential Development	Commercial Development	Total Development
<u>GENERAL FUND</u>			
Annual General Fund Revenues			
Property Tax	\$1,064,345	\$60,453	\$1,124,799
Property Tax in Lieu of Sales Tax	\$34,704	\$116,166	\$150,870
Property Tax in Lieu of VLF	\$1,231,315	\$69,937	\$1,301,252
Real Property Transfer Tax	\$26,045	\$2,353	\$28,398
Sales Tax (Incl. Prop. 172 - Public Safety)	\$88,343	\$295,718	\$384,061
Business License Tax	\$105,824	\$9,560	\$115,384
Franchise Fees	\$1,183,141	\$0	\$1,183,141
Licenses [1]	\$0	\$0	\$0
Fees [1]	\$0	\$0	\$0
Intergovernmental Revenue	\$65,633	\$0	\$65,633
Motor Vehicle in-Lieu	\$69,523	\$0	\$69,523
Fines and Forfeitures	\$37,248	\$3,365	\$40,613
Subtotal Annual Gen. Fund Revenues	\$3,906,121	\$557,552	\$4,463,673
STREET FUNDS - Annual Street Funds Revenues			
State Gas Tax	\$134,782	\$12,176	\$146,958
Subtotal Street Funds Revenues	\$134,782	\$12,176	\$146,958
TOTAL ANNUAL GENERAL AND STREET FUND REVENUES			\$4,610,631

"rev_summary"

Source: City of Lodi and EPS.

[1] Adjusted for user fees and cost recovery amounts.

Table B-3
City of Lodi New Annexation Fiscal Impact Analysis
Motor Vehicle in-Lieu Fee (MLVF) Revenue Replaced by Property Tax (2006\$)

Item	Formula	Citywide FY 2005-06 Total
Motor Vehicle in-Lieu Fee (MVLf) Revenue		
Motor Vehicle in-Lieu Fee Revenue Multiplier [1]	<i>a</i>	\$8.70
Project Residents	<i>b</i>	7,995
Total MVLf Revenue	<i>c = a * b</i>	\$69,523
Motor Vehicle in-Lieu Fee Revenue Replaced by Property Tax		
Motor Vehicle in-Lieu Fee Revenue (Current State Statutes) [2]	<i>d</i>	\$4,196,258
Less Motor Vehicle in-Lieu Fee Revenue [2]	<i>e</i>	\$422,187
Total Citywide MVLf Revenue Replaced by Property Tax [3]	<i>f = d - e</i>	\$3,774,071

"VLF_Rev"

Source: Senate Constitution Amendment 4 (SCA 4); Senate Bill 1096 as amended by Assembly Bill 2115; California State Controller; City of Rancho Cordova; and EPS.

- [1] From California State Controller, FY 2005-06 *State of California Shared Revenue Estimates*.
- [2] From California State Controller, *Vehicle License Fee Adjustment Amounts*, October 14, 2005.
- [3] Amount used to calculate annual property tax in lieu of VLF revenue as shown on **Table B-4**.

Table B-4
City of Lodi New Annexation Fiscal Impact Analysis
Estimated Annual Property Tax Revenues (2006\$)

Land Use	Assump.	Formula	At Buildout		
			Residential	Nonresidential	Total
Adjusted Assessed Value (2005\$) [1]		a	\$1,410,713,557	\$80,126,509	\$1,490,840,066
Property Tax (1% of Assessed Value)	1.00%	b = a * 1.00%	\$14,107,136	\$801,265	\$14,908,401
Estimated Property Tax Allocation [2]					
Lodi General Fund	7.54%	c = b * 7.54%	\$1,064,345	\$60,453	\$1,124,799
Other Agencies	92.46%	d = b * 92.46%	\$13,042,790	\$740,812	\$13,783,602
Property Tax In-Lieu of MVLF Fee Revenue					
Total Citywide Assessed Value [3]		j	\$4,323,941,815	\$4,323,941,815	\$4,323,941,815
Total Assessed Value of Project		a	\$1,410,713,557	\$80,126,509	\$1,490,840,066
Total Assessed Value		k = j + a	\$5,734,655,372	\$4,404,068,324	\$5,814,781,881
Percent Change in AV		l = k / j - 1	32.63%	1.85%	34.48%
Property Tax In-Lieu of VLF [4]	\$3,774,071	m = l * \$3,774,071	\$1,231,315	\$69,937	\$1,301,252

"prop_tax"

Source: State Controller's Office; and EPS.

[1] For assumptions and calculation of adjusted assessed value, see **Table D-2**.

[2] For assumptions and calculation of the estimated property tax allocation, refer to **Table D-1**.

[3] Total secured and unsecured assessed value for the City for 2005-2006, from State Controller's Office.

[4] Estimated impact of Senate Bill 1096 (SB 1096), as amended by Assembly Bill 2115 (AB 2115). Motor Vehicle in-Lieu Fee Revenue assumption amount estimated in Table B-3.

Table B-5
City of Lodi New Annexation Fiscal Impact Analysis
Estimated Annual Sales and Use Tax Revenues (2006\$)

Item	Source/ Assump.	At Buildout		
		Residential	Commercial	Total
Taxable Sales from Market Support and On-Site Retail				
Taxable Sales from Market Support	Table B-5A	\$13,881,477	\$303,333	\$14,184,810
Net Taxable Sales Captured from On-Site Retail Development [1]	Table B-5B	\$0	\$46,163,038	\$46,163,038
Total Taxable Sales from Market Support and On-Site Retail		\$13,881,477	\$46,466,371	\$60,347,848
Annual Sales Tax Revenue				
Bradley Burns Sales Tax Rate	0.7500%	\$104,111	\$348,498	
Estimated Countywide and State Pool Sales Tax Factor [2]	0.0977%	\$13,562	\$45,397	
Estimated Proposition 172 Sales Tax Factor [3]	0.0387%	\$5,374	\$17,989	
Subtotal Estimated Local Sales Tax Rate	0.8864%	\$123,047	\$411,884	
Less Property Tax in Lieu of Sales Tax Rate (SB 1096/AB 2115)	-0.2500%	(\$34,704)	(\$116,166)	
Total Annual Sales Tax Revenue	0.6364%	\$88,343	\$295,718	\$384,061
Annual Property Tax in Lieu of Sales Tax (SB 1096/AB 2115) [4]				
	0.2500%	\$34,704	\$116,166	\$150,870

"sales_tax_sum"

Source: California State Board of Equalization, and EPS.

[1] Net of new resident market support.

[2] See **Table D-5**. Sales tax generated from unclassified, non-point-of-sale transactions are collected by the California State Board of annually to jurisdictions in San Joaquin County. Lodi receives approximately 9.4% of total taxable countywide sales annually.

[3] See **Table D-4**. Based on the City's FY2005-06 budget, the City receives approximately \$0.00194 of the \$0.05 tax applied to each dollar of taxable sales.

[4] Based on Senate Bill 1096 as amended by Assembly Bill 2115 which states 1/4 of the 1 percent sales tax revenue (0.25 percent) will be exchanged for an equal dollar amount of property tax revenue.

Table B-5A
City of Lodi New Annexation Fiscal Impact Analysis
Estimated Annual Taxable Sales, Hybrid Market Support Method (2006\$)

Item	Assumption	At Buildout		Total
		Residential	Commercial	
Annual Taxable Sales from Market Support				
<u>Taxable Sales from New Households</u>				
Average Annual Household Income [1]				
Single-Family Residential	\$99,000			
Medium-Density Residential	\$78,000			
High-Density Residential	\$32,970			
Taxable Retail Expenditures as a % of HH Inc. [2]				
Single-Family Residential	27%			
Medium-Density Residential	27%			
High-Density Residential	36%			
Taxable Retail Expenditures per Household				
Single-Family Residential		\$26,436		
Medium-Density Residential		\$21,214		
High-Density Residential		\$11,924		
New Single-Family Residential Households		1,692		
New Medium-Density Residential Households		695		
New High-Density Residential Households		833		
Taxable Sales from New Households [3]				
Tax. Sales from New Single-Family Res HH		\$44,730,493		\$44,730,493
Tax. Sales from New Medium-Density Res HH		\$14,743,797		\$14,743,797
Tax. Sales from New High-Density Res HH		\$9,933,095		\$9,933,095
Subtotal Taxable Sales from New Households		\$69,407,385		\$69,407,385
Est. Retail Capture in Lodi from New Res. [4]	20%			
Total Taxable Sales from New HH in Ceres		\$13,881,477		\$13,881,477
<u>Taxable Sales from New Employment</u>				
Average Daily Taxable Sales per New Empl.	\$7.00			
Work Days per Year	240			
Estimated Capture in Lodi from New Empl.	50%			
New Employees		0	1,444	
Taxable Sales from New Employees [5]	25% of total	\$0	\$303,333	
Total Annual Taxable Sales from Market Support		\$13,881,477	\$303,333	\$14,184,810

"sales_tax_a"

Source: U.S. Department of Labor, Bureau of Labor Statistics, and EPS.

[1] See **Table D-3**. Household income based on mortgage qualification guidelines.

[2] Derived from Bureau of Labor Statistics (2003) data.

[3] "Taxable Sales from New Households" is calculated by multiplying taxable retail expenditures per household by the cumulative number of new households.

[4] Estimated capture rate by EPS based on Google Local searches for large format retailers, auto dealers, and sit-down dining establishments.

[5] "Taxable Sales from New Employees" is calculated by multiplying daily sales per new employee by the number of work days per year, the estimated capture of sales within Ceres, and the cumulative number of new employees. Discounted 75% to avoid double-counting of employees who also are residents.

Table B-5B
City of Lodi New Annexation Fiscal Impact Analysis
Estimated Annual Taxable Sales, Adjusted Retail Space Method (2006\$)

Item	Formula	Assump.	At Buildout		
			Residential	Commercial	Total
Annual Taxable Sales from On-Site Retail Development					
Total Square Feet Built	<i>a</i>	350,000			
Annual Sales per Square Foot [1]					
Commercial	<i>b</i>	\$210			
Taxable Retail Sales Factor [2]					
Commercial	<i>c</i>	65%			
Annual Taxable Sales per Sq. Ft. (Rounded)					
Commercial	$d = b * c$	\$140			
Annual Taxable Sales From On-Site Retail Dev.					
Commercial	$e = a * d$		\$0	\$49,000,000	\$49,000,000
Subtotal Taxable Sales from On-Site Retail Dev.			\$0	\$49,000,000	\$49,000,000
Market Support from Annexation Area Residential Dev. [3]					
Total Taxable Market Support	<i>f</i>		\$13,881,477	\$303,333	\$14,184,810
Percent of Tax. Market Support Spent On-Site [4]	<i>g</i>	20%			
Taxable Market Support Spent On-Site	$h = f * g$		\$2,776,295	\$60,667	\$2,836,962
Net New Taxable Sales from On-Site Retail Dev.	$i = e - h$				\$46,163,038

"sales_tax_b"

Source: Urban Land Institute and EPS.

[1] Sales per square foot figures shown are an average of shopping centers in the Western U.S. from Urban Land Institute, *Dollars & Cents of Shopping Centers 2004*.

[2] This figure represents the percentage of total sales subject to sales tax. These percentages are based on prior EPS studies.

[3] Market support subtracted to avoid double-counting on-site retail sales tax revenue. See **Table B-5A** for detailed information.

[4] Only a portion of total household taxable spending (20% in this study) is estimated to occur in the 350,000 square feet.



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APPENDIX C

EXPENDITURE-ESTIMATING TABLES

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Table C-2	Estimated Annual Annexation Area Expenditures	C-2
Table C-3	Park Expenditures Case Study	C-3

Table C-1
City of Lodi New Annexation Fiscal Impact Analysis
Expenditure-Estimating Procedure based on City of Lodi FY 2005-06 Budget (2006\$)

Category	Estimating Procedure	Table/ Reference	City of Lodi FY 2005-06 Adopted Exp.	Offsetting Revenues [1]	Adjusted Net FY 2005-06 Expenditures	11/1/2005 Population or Persons Served	FY 2005-06 Weighted Avg. Cost	Adjustment Factor	Cost Multiplier per Employee		
									Resident	Employee	
GENERAL FUND											
Annual General Fund Expenditures											
City Attorney	Avg. Cost per Person Served	Table C-2	\$400,820		\$400,820	68,068	\$5.89	1.00	\$5.89	\$2.94	
City Manager	Avg. Cost per Person Served	Table C-2	\$2,421,686		\$2,421,686	68,068	\$35.58	1.00	\$35.58	\$17.79	
City Clerk	Avg. Cost per Person Served	Table C-2	\$511,585		\$511,585	68,068	\$7.52	1.00	\$7.52	\$3.76	
Finance	Avg. Cost per Person Served	Table C-2	\$2,245,987		\$2,245,987	68,068	\$33.00	1.00	\$33.00	\$16.50	
Community Events	Avg. Cost per Capita	Table C-2	\$100,000		\$100,000	62,467	\$1.60	1.00	\$1.60	\$0.80	
Police	Avg. Cost per Person Served	Table C-2	\$13,006,961	(\$1,198,755)	\$11,808,206	68,068	\$173.48	1.00	\$173.48	\$86.74	
Fire Dept.	Avg. Cost per Person Served	Table C-2	\$8,098,576	(\$36,000)	\$8,062,576	68,068	\$118.45	1.00	\$118.45	\$59.22	
Public Works	Avg. Cost per Person Served	Table C-2	\$6,745,037	(\$931,095)	\$5,813,942	68,068	\$85.41	1.00	\$85.41	\$42.71	
Community Center	Avg. Cost per Capita	Table C-2	\$1,282,700	(\$697,800)	\$584,900	62,467	\$9.36	1.00	\$9.36	\$4.68	
Non-Departmental	Avg. Cost per Person Served	Table C-2	\$5,333,002		\$5,333,002	68,068	\$78.35	1.00	\$78.35	\$39.17	
Parks & Recreation	Case Study	Table C-3	\$3,678,018	(\$1,359,994)	\$2,318,024	62,467	\$65.00	1.00	\$65.00	\$32.50	
Subtotal Annual General Fund Exp.					\$39,600,728		\$613.63		\$613.63	\$306.81	
STREET FUNDS											
Annual Street Fund Expenditures (Non General Fund)	Avg. Cost per Person Served	Table C-2	\$5,545,036	(\$2,242,000)	\$3,303,036	68,068	\$48.53	1.00	\$48.53	\$24.26	
TOTAL ANNUAL GENERAL AND STREET FUNDS					\$42,903,764		\$662.16		\$662.16	\$331.08	

*exp_procedures"

Source: City of Lodi FY 2005-06 Financial Plan and Budget, and EPS.

[1] Revenues are adjusted by user fees and cost recovery amounts shown in the City's FY 2005-06 Budget. These deductions in ongoing expenditures also are deducted from ongoing revenues, as shown in Table B-1.

Table C-2
City of Lodi New Annexation Fiscal Impact Analysis
Estimated Annual Expenditures (2006\$)

Expenditure Category	At Buildout		
	Residential	Commercial	Total
<u>GENERAL FUND</u>			
Annual General Fund Expenditures			
City Attorney	\$47,076	\$2,126	\$49,202
City Manager	\$284,425	\$12,847	\$297,273
City Clerk	\$60,085	\$2,714	\$62,799
Finance	\$263,790	\$11,915	\$275,705
Community Events	\$12,798	\$578	\$13,376
Police	\$1,386,866	\$62,644	\$1,449,510
Fire Dept.	\$946,944	\$42,773	\$989,717
Public Works	\$682,844	\$30,844	\$713,688
Community Center	\$74,856	\$3,381	\$78,237
Non-Departmental	\$626,358	\$28,292	\$654,650
Parks & Recreation	\$519,645	\$23,472	\$543,117
Subtotal Annual General Fund Exp.	\$4,905,687	\$221,588	\$5,127,275
<u>STREET FUND</u>			
Annual Street Fund Expenditures (Non General Fund)	\$387,939	\$17,523	\$405,463
TOTAL ANNUAL EXPENDITURES	\$5,293,626	\$239,112	\$5,532,738

"exp_sum"

Source: EPS.

Table C-3
City of Lodi New Annexation Fiscal Impact Analysis
Park Expenditures Case Study

Item	Source	Value
Population in Annexation Areas	a	7,995
Park Acres Required Per 1,000 Population	b	5
Park Acres Required for Annexation Area	c = (a / 1000) * b	39.97
Park Maintenance Cost per Acre (2006 \$s) [1]	d	\$13,000
Total Park Maintenance Costs in Annexation Area (2006 \$s)	e = c * d	\$519,645
Park Maintenance Costs Per Capita in Annexation Area (2006 \$s)	e / a	\$65.00

Source: City of Lodi and EPS "park_costs"

[1] Includes costs of maintaining developed parks. Does not include costs of maintaining open space, trail systems, or other such public facilities.



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APPENDIX D

SUPPORTING TABLES FOR REVENUE ESTIMATES

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Table D-1
City of Lodi New Annexation Fiscal Impact Analysis
Estimate of Post-Annexation Property Tax Allocations

Item / Fund Title	Tax Rate Area (TRA)		Average TRA Distribution	Subject to Prop. Tax Sharing Agreement	Tax Exchange on Annexation	
	Property Tax Distribution TRA 099-024	TRA 099-021			City of Lodi	San Joaquin County
Agreement For Property Tax Allocation Upon Annexation						
Subject to Property Tax Sharing Agreement						
Woodbridge Rural Fire	18.1387%	18.5825%	18.3606%	18.3606%	3.6721%	14.6885%
County General	19.1296%	19.5965%	19.3631%	19.3631%	3.8726%	15.4904%
Subtotal, Subject to Tax Sharing	37.2683%	38.1790%	37.7237%	37.7237%	7.5447%	30.1789%
Unaffected by Property Tax Sharing Agreement						
Road District No. 4	3.5514%	3.6382%	3.5948%			
County Library	1.5430%	1.5807%	1.5619%			
Lodi Unified Schools	24.3862%	24.9827%	24.6845%			
S.J Delta Comm College	3.4329%	3.5169%	3.4749%			
SJC Office of Education	1.2145%	1.2452%	1.2299%			
SJC Flood Control	0.1505%	0.1542%	0.1524%			
SJC Mosquito Abatement	0.6757%	0.6923%	0.6840%			
Woodbridge Irrigation	1.5352%	-	0.7676%			
ERAF	26.2423%	26.0108%	26.1266%			
Subtotal, Unaffected by Tax Sharing	62.7317%	61.8210%	62.2764%			
Total	100.0000%	100.0000%	100.0000%			
"tra"						

"tra"

Source: City of Lodi; San Joaquin County Auditor-Controller; and EPS.

Table D-2
City of Lodi New Annexation Fiscal Impact Analysis
New Assessed Valuation

Item	At Buildout		
	Residential	Commercial	Total
<u>Assessed Value (2006\$)</u>			
Residential Assessed Value			
Single-Family Residential	\$932,292,000	-	\$932,292,000
Medium-Density Residential	\$292,595,000	-	\$292,595,000
High-Density Residential	\$107,231,000	-	\$107,231,000
High-Density Residential	\$23,550,000	-	\$23,550,000
Total Residential Assessed Value	\$1,355,668,000	-	\$1,355,668,000
Nonresidential Assessed Value			
Commercial	-	\$49,000,000	\$49,000,000
Office	-	\$28,000,000	\$28,000,000
Total Nonresidential Assessed Value	-	\$77,000,000	\$77,000,000
Total Assessed Value (2006\$)	\$1,355,668,000	\$77,000,000	\$1,432,668,000
<u>Adjusted Assessed Value (Appreciated 2006\$) [1]</u>			
Residential Assessed Value			
Single-Family Residential	\$970,146,794	-	\$970,146,794
Medium-Density Residential	\$304,475,530	-	\$304,475,530
High-Density Residential	\$111,585,009	-	\$111,585,009
High-Density Residential	\$24,506,224	-	\$24,506,224
Total Residential Assessed Value	\$1,410,713,557	-	\$1,410,713,557
Nonresidential Assessed Value			
Commercial	-	\$50,989,596	\$50,989,596
Office	-	\$29,136,912	\$29,136,912
Total Nonresidential Assessed Value	-	\$80,126,509	\$80,126,509
Total Nonresidential Assessed Value	-	\$80,126,509	\$80,126,509
Total Adjusted Assessed Value (Inflated\$)	\$1,410,713,557	\$80,126,509	\$1,490,840,066

"new_av"

Source: EPS.

[1] Assumes project build out occurs in FY2009-10.

Table D-3
City of Lodi New Annexation Fiscal Impact Analysis
Average Income Calculation for Residential Housing Units (2006\$)

Item	Amount
<u>Average Income Calculation for Single-Family Housing Units</u>	
Estimated Average Single-Family Home Value	\$551,000
Total Annual Mortgage Payments [1]	\$33,000
Approximate Household Income [2]	\$99,000
<u>Average Income Calculation for Medium Density Housing Units</u>	
Estimated Average Medium Density Home Value	\$421,000
Total Annual Mortgage Payments [1]	\$26,000
Approximate Household Income [2]	\$78,000
<u>Average Income Calculation for High Density Housing Units</u>	
Estimated Average High Density Home Value	\$157,000
Total Annual Rent Payments [3]	10,990
Approximate Household Income [2]	\$32,970

"income_calc"

Source: EPS

[1] Based on a 6.5 percent, 30 year fixed rate mortgage and a 20 percent down payment.

[2] Assumes mortgage lending guidelines allow no more than 33% of income dedicated to payments.

[3] Assumes no for-sale units. Assumes a property cap rate of 7 percent.

Table D-4
City of Lodi New Annexation Fiscal Impact Analysis
City of Lodi Proposition 172 Sales Tax Rate Calculation

Item	Amount
Estimated Sales Tax Revenues - City of Lodi FY 2005-06	\$9,402,120
Estimated Actual Taxable Sales (1% Sales Tax Rate)	\$940,212,000
Estimated Proposition 172 Public Safety Sales Tax Distribution - FY 2005-06	\$364,000
Estimated City of Lodi Proposition 172 - Public Safety Sales Tax Rate	0.03871%

"taxable_sales"

Source: City of Lodi and EPS.

Table D-5
City of Lodi New Annexation Fiscal Impact Analysis
Indirect Sales Tax Allocation to Lodi

Item	Formula	Value
2004 Taxable Sales [1]		
City of Lodi Direct Allocation	<i>a</i>	\$813,878,000
San Joaquin County Direct Allocation	<i>b</i>	\$8,703,241,000
County Indirect Taxable Sales [2]	<i>c</i>	\$850,287,000
Indirect Allocation to City, estimate	$d = c * a / b$	\$79,514,043
City Indirect Allocation as a Percent of Total	$e = d / a$	9.76977%
		<i>"indirect_sales"</i>

[1] Retail sales subject to sales and use tax.

[2] Taxable sales unallocated to specific local jurisdictions.